

Message Text

CONFIDENTIAL

PAGE 01 STATE 298324

41

ORIGIN ARA-10

INFO OCT-01 ISO-00 SP-02 L-03 CIAE-00 INR-07 NSAE-00 EB-07
COME-00 TRSE-00 FEAE-00 XMB-02 OPIC-03 IGA-02 AID-05
/042 R

DRAFTED BY ARA/AND/E - MR. ALLITTO:LEE

APPROVED BY ARA/AND/E - MR. ALLITTO

----- 044473

P 081538Z DEC 76

FM SECSTATE WASHDC

TO AMEMBASSY QUITO PRIORITY

C O N F I D E N T I A L STATE 298324

E.O. 11652: GDS

TAGS: ENGR, EC

SUBJECT: GOE-GULF NEGOTIATIONS

1. THE FOLLOWING IS THE TEXT OF GULF'S PROPOSED FINANCING
ARRANGEMENT:

QUOTE: IT IS PROPOSED THAT THE PAYMENT TO GULF FOR THOSE
INVESTMENTS, INCLUDING INVESTORIES, RELATING TO ITS PARTI-
CIPATION IN THE CEPE-TEXACO-GULF CONSORTIUM BE FINANCED BY
AN INTERNATIONAL GROUP OF LENDERS WHICH WOULD ADVANCE THE
SUM TO THE GOVERNMENT OF ECUDOR FOR PAYMENT TO GULF. THE
LOAN WOULD BE STRUCTURED AS FOLLOWS:

A. THE GOVERNMENT WOULD ESTABLISH A MINIMUM ANNUAL VOLUME
OF CRUDE OIL AND REFINED PRODUCTS THAT IT INTENDS TO EX-
PORT DURING FUTURE YEARS.

B. THE LOAN REPAYMENT SCHEDULE WOULD BE AGREED BETWEEN THE
GOVERNMENT AND THE LENDERS IN ACCORDANCE WITH THE MINIMUM
ANNUAL EXPORT VOLUMES ESTABLISHED BY THE GOVERNMENT.

C. ALL PAYMENTS TO EVERY EXPORTER BY ANY PURCHASER FOR

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 STATE 298324

CRUDE OIL AND REFINED PRODUCTS WOULD BE EFFECTED BY DEPO-

SITS MADE TO CITIBANK IN NEW YORK IN US DOLLARS FOR CREDIT TO THE CENTRAL BANK OF ECUADOR IN ACCORDANCE WITH REGULATION 814.

D. AT TIME THE DEPOSITS COVERING EXPORTS OF CRUDE OIL AND REFINED PRODUCTS ARE MADE TO CITIBANK IN NEW YORK FOR CREDIT TO THE CENTRAL BANK OF ECUADOR, A STATED PERCENTAGE OF THE MARKET VALUE FOR EACH BARREL OF EXPORTED CRUDE OIL OR REFINED PRODUCT WOULD BE PAID OVER BY CITIBANK TO THE LENDERS ON BEHALF OF THE GOVERNMENT OF ECUADOR UNTIL THEIR LOAN HAS BEEN REPAID IN FULL.

E. GULF WOULD BE WILLING TO ASSIST IN FINANCING ARRANGEMENT BY AGREEING TO PURCHASE FROM CEPE AN AGREED VOLUME OF CRUDE OIL AND REFINED PRODUCT AT COMPETITIVE MARKET PRICES DURING PAY-OUT PERIOD OF THE LOAN. ALSO, GULF WOULD BE WILLING TO ASSIST DURING THE SAME PERIOD IN THE EXPORT MARKETING OF CRUDE OIL AND REFINED PRODUCTS BELONGING TO CEPE. END QUOTE

EXAMPLE CEPE-TEXACO-GULF CONSORTIUM PRODUCTION AND EXPORT POTENTIAL

VOLUMES - THOUSANDS OF BARRELS

YEAR	DAILY GROSS PRODUCTION	DAILY LOCAL DEMAND	DAILY EXPORT AVAILS	ANNUAL EXPORT AVAILS
------	------------------------------	--------------------------	---------------------------	----------------------------

1	200.0	60.0	140.0	51,100
2	200.0	65.0	135.0	49,275
3	200.0	70.0	130.0	47,450
4	200.0	75.0	125.0	45,625
5	200.0	80.0	120.0	43,800
6	200.0	85.0	115.0	41,975
7	200.0	90.0	110.0	40,150
8	200.0	95.0	105.0	38,325
9	200.0	100.0	100.0	36,500
10	200.0	105.0	95.0	34,675

CONFIDENTIAL

CONFIDENTIAL

PAGE 03 STATE 298324

EXAMPLE CEPE-TEXACO-GULF CONSORTIUM AVAILABLE EXPORT REVENUES

ANNUAL VALUES - THOUSANDS OF DOLLARS

YEAR	EXPORTS AT \$12/BBL	CUMULATIVE EXPORTS AT \$12/BBL	5 OF EXPORTS	3 OF EXPORTS
------	------------------------	--------------------------------------	-----------------	-----------------

1	613,200	613,200	30,660	18,396
2	591,300	1,204,500	60,695	36,217
3	569,400	1,773,900	88,695	53,217
4	547,500	2,321,400	116,070	69,642
5	525,600	2,847,000	142,350	85,410
6	503,700	3,350,700	167,535	100,521
7	481,800	3,832,500	191,625	114,975
8	459,900	4,292,400	214,620	128,772
9	438,000	4,730,400	236,520	141,912
10	416,100	5,146,500	257,325	154,395

2. THE FOLLOWING IS THE TEXT OF GULF'S PROPOSED INTERIM
ARRANGEMENT PENDING FINAL AGREEMENT:

QUOTE: TO BE AUTHORIZED BY A SUPREME DECREE EFFECTIVE
12/31/76 AND REMAINING IN EFFECT UNTIL ALL MATTERS SUBJECT
TO NEGOTIATION ARE AGREED.

A. GULF WOULD CONTINUE NORMAL CRUDE OIL EXPORTS ON FOLLOW-
ING BASIS:

(1) GULF ENTITLEMENT TO BE NOT LESS THAN 37.5 OF PRO-
DUCTION AVAILABLE FOR EXPORT.

(2) PRODUCTION AVAILABLE FOR EXPORT DEFINED AS ACTUAL
RECEIPTS OF CRUDE OIL AT BALAO LESS THAT REQUIRED FOR
INTERNAL CONSUMPTION.

B. GULF WOULD CONTINUE TO MEET ALL CASH CALLS FOR OPERAT-
ING EXPENSES AND CAPITAL EXPENDITURES RELATING TO ITS
PRESENT PARTICIPATION.

CONFIDENTIAL

CONFIDENTIAL

PAGE 04 STATE 298324

(1) OPERATING EXPENSES, INCLUDING DIRECT AND INDIRECT
COSTS OF PRODUCTION, AND CAPITAL EXPENDITURES TO BE
CLASSIFIED IN ACCORDANCE WITH DECREE 1383 AND TO BE RE-
COVERED CURRENTLY THROUGH CASH FLOW BUDGET SYSTEM.

(2) OPERATING EXPENSES, INCLUDING DEPRECIATION PLUS CUR-
RENT PROFIT MARGIN, TO BE RECOVERED IN ACCORDANCE WITH
EXISTING PAYBACK PROCEUDRES.

(3) CAPITAL EXPENDITURES MADE DURING EACH CALENDAR QUARTER
TO BE RECOVERED THROUGH SPECIAL CREDITS EFFECTED FROM
DEPOSITS MADE BY GULF FOR CRUDE OIL EXPORTS DURING SUBSE-
QUENT CALENDAR QUARTER.

(4) CAPITAL EXPENDITURES TO BE RECOVERED THROUGH SPECIAL INVESTMENT CREDITS EQUAL TO 10 OF THE TOTAL ROYALTY AND INCOME TAX PAYMENTS OTHERWISE RETAINED FROM EACH DEPOSIT MADE BY GULF DURING A SUBSEQUENT CALENDAR QUARTER UNTIL ALL CAPITAL EXPENDITURES MADE DURING THE PRECEDING CALENDAR QUARTER ARE RECOVERED.

(5) CAPITAL EXPENDITURES REMAINING UNRECOVERED AT THE END OF ANY CALENDAR QUARTER TO BE CARRIED OVER TO SUBSEQUENT CALENDAR QUARTERS UNTIL FULLY RECOVERED.

C. GULF WOULD CONTINUE TO PAY ROYALTIES AND INCOME TAXES RELATING TO ITS PARTICIPATION IN ACCORDANCE WITH EXISTING LAWS AND REGULATIONS.

D. NET BOOK VALUES EXISTING FOR INVESTMENTS MADE BY GULF WITH RESPECT TO ITS PARTICIPATION AS AT 12/31/76 WOULD BE ADJUSTED FOR ANY AMORTIZATION AND DEPRECIATION COMPUTED ON SUCH INVESTMENTS AFTER 12/31/76 FOR INCOME TAX PURPOSES. END QUOTE.

3. THE FOLLOWING IS THE TEXT OF GULF REPRESENTATIVE O'BRIEN'S REPORT ON HIS DECEMBER 3 CONVERSATION WITH FINANCE MINISTER SEVILLA:

QUOTE: SEVILLA SAID FURTHER NEGOTIATIONS WITH COMMISSION CONFIDENTIAL

CONFIDENTIAL

PAGE 05 STATE 298324

WERE A WASTE OF TIME, AS COMMISSION PERSONNEL WERE NOT AT NEGOTIATION LEVEL.

SEVILLA HAD INSTRUCTIONS DIRECTLY FROM DURAN THAT COMPLETELY COINCIDED WITH HIS PERSONAL OPINION, TO NEGOTIATE TERMS OF PAYMENT DIRECTLY WITH GULF. HE SAW NO PROBLEM IN PAYING GULF IN CASH BY MEANS OF INTERNATIONAL LOAN.

SEVILLA SAID AMOUNT OF PAYMENT SHOULD BE DISCUSSED BY GULF DIRECTLY WITH MIRANDA WHO WOULD SHORTLY RECEIVE INSTRUCTIONS FROM DURAN AND TO ENSURE PROPER COORDINATION, HE WOULD ARRANGE TO HAVE HIS UNDER-SECRETARY JARAMILLO PRESENT IN SUCH DISCUSSIONS (JARAMILLO UNDERTOOK TO SET UP FIRST MEETING).

SEVILLA PRESUMED THERE WOULD BE SOME DIFFERENCE OF OPINION BETWEEN GULF AND MIRANDA CONCERNING AMOUNT OF PAYMENT. IF SO, WE SHOULD IMMEDIATELY ESTABLISH MUTUALLY AGREED MINIMUM AND MAXIMUM VALUES. SEVILLA ASSUMED THAT THIS WOULD NOT BE VERY DIFFICULT AS HE PRESUMED THAT THE VALUE OF

CERTAIN PORTIONS OF THE ASSETS ARE NOT IN DISPUTE.

GULF STATED THAT THE MAJOR AREA OF CONTENTION WAS THE PIPE-LINE AS THE GOE APPARENTLY HAD A STUDY PRODUCED BY A MEXICAN COMMISSION WHICH DETERMINED THAT THE PIPELINE SHOULD HAVE COST SEVERAL MILLIONS LESS THAN WAS REFLECTED IN OUR ACCOUNTING RECORDS. SEVILLA SAID THAT HE HAD HEARD OF THE MEXICAN STUDY AND DISMISSED IT AS "NONSENSE". SEVILLA SUGGESTED THAT DIFFERENCES OF THIS NATURE BE BY INTERNATIONAL ARBITRATION OR INDEPENDENT AUDIT.

SEVILLA SAID THAT HE PROPOSED THE FOLLOWING FINANCIAL ARRANGEMENT:

A. GULF AND GOE SHOULD ESTABLISH A MINIMUM NET BOOK VALUE.

B. SEVILLA WOULD THEN ARRANGE TO PAY THIS MINIMUM IN HARD CURRENCY VIA AN INTERNATIONAL LOAN.

C. THE DIFFERENCE BETWEEN MINIMUM AND MAXIMUM WOULD BE CONFIDENTIAL

CONFIDENTIAL

PAGE 06 STATE 298324

PAID AT A LATER DATE AFTER AN AUDIT.

D. IN THE INTERIM PERIOD THE GOE AND GULF WOULD EXCHANGE INTERNATIONAL LETTERS OF CREDIT TO INSURE THAT EACH PARTY HAD AMPLE PROTECTION UNTIL SUCH TIME AS FINAL PAYMENT WAS MADE. END QUOTE. ROBINSON

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: COMPENSATION, NEGOTIATIONS, FINANCIAL PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 08 DEC 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: powellba
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976STATE298324
Document Source: CORE
Document Unique ID: 00
Drafter: MR. ALLITTO:LEE
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D760453-1026
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19761261/aaaacate.tel
Line Count: 254
Locator: TEXT ON-LINE, ON MICROFILM
Office: ORIGIN ARA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: powellba
Review Comment: n/a
Review Content Flags:
Review Date: 23 JUL 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <23 JUL 2004 by SmithRJ>; APPROVED <05 NOV 2004 by powellba>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: GOE-GULF NEGOTIATIONS
TAGS: ENRG, EFIN, EINV, EC, US, GULF
To: QUITO
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006